

STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall, 17th Floor
Sacramento, California 95814

INITIAL STATEMENT OF REASONS

January 1, 2009 Workers' Compensation Pure Premium Rates

File No. REG-2008-00027

The California Insurance Commissioner will consider (1) proposed changes to pure premium rates developed by the Commissioner's designated rating organization; (2) amendments to the California Workers' Compensation Uniform Statistical Reporting Plan—1995, Title 10 CCR §2318.6; (3) amendments to the Miscellaneous Regulations for the Recording and Reporting of Data, Title 10, CCR §2354; and (4) amendments to the California Workers' Compensation Experience Rating Plan—1995, Title 10 CCR §2353.1. The hearing will be held in response to a filing by the Workers' Compensation Insurance Rating Bureau of California ("WCIRB") submitted on August 15, 2008.

SPECIFIC PURPOSE AND NECESSITY

Pursuant to Insurance Code Sections 11734 and 11751.5, the Insurance Commissioner has designated the WCIRB as his rating organization and statistical agent. As the designated rating organization and statistical agent, the WCIRB has developed and submitted for Insurance Commissioner approval pure premium rates and revisions to the California Workers' Compensation Uniform Statistical Reporting Plan—1995; the Miscellaneous Regulations for the Recording and Reporting of Data; and the California Workers' Compensation Experience Rating Plan—1995. The pure premium rates will be advisory only; however, adherence to the regulations contained in the California Workers' Compensation Uniform Statistical Reporting Plan—1995, the Miscellaneous Regulations for the Recording and Reporting of Data, and the California Workers' Compensation Experience Rating Plan—1995 is mandatory. With regard to the standard classification system developed by the WCIRB and approved by the Insurance Commissioner, Insurance Code Section 11734 provides that an insurer may develop its own classification system if it is filed with the Insurance Commissioner 30 days prior to its use and is not disapproved by the Insurance Commissioner for failure to demonstrate that the data produced by the insurer's classification system can be reported consistently with the California Workers' Compensation Uniform Statistical Reporting Plan—1995 or the standard classification system developed by the WCIRB and approved by the Insurance Commissioner.

The pure premium rates recommended by the WCIRB to be effective January 1, 2009, as well as proposed revisions to the regulations to be effective January 1, 2009, are set forth in its filing and are summarized below:

APPROVE PURE PREMIUM RATES

Pursuant to California Insurance Code Section 11750.3, the WCIRB has proposed advisory pure premium rates for approval by the Insurance Commissioner to be effective January 1, 2009 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2009. The proposed advisory pure premium rates are, on average, 16.0% greater than the January 1, 2008 advisory pure premium rates approved by the Insurance Commissioner.

AMEND THE CALIFORNIA WORKERS' COMPENSATION UNIFORM STATISTICAL REPORTING PLAN—1995

The WCIRB recommends amending the California Workers' Compensation Uniform Statistical Reporting Plan—1995 (USRP). Except as noted below, these amendments are proposed to become effective January 1, 2009 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2009.

The WCIRB's recommendations are as follows:

1. Amend Part 1, *General Provisions*, Section I, *Introduction*, Rule 3, *Effective Date*, to show that the effective date of the amended USRP is 12:01 A.M., January 1, 2009.
2. Amend Part 2, *Policy Document Filing Requirements*, Section I, *General Instructions*, Rule 1, *Policies*, paragraph a, *New and Renewal Policies*, subparagraph (2)(d), to eliminate the optional Social Security Number reporting requirement for policyholders that do not have an FEIN, due to privacy concerns.
3. Amend Part 3, *Standard Classification System*, Section II, *Classification Terminology*, Rule 14, *Miscellaneous Employee(s)*, to correct the citation to the Multiple Enterprise rule.
4. Amend Part 3, *Standard Classification System*, Section V, *Payroll – Remuneration*, Rule 1, *Payroll – Remuneration*, Subrule j, *Executive Officers*, Subrule k, *Partners*, Subrule l, *Individual Employers*, and Subrule m, *Members of a Limited Liability Company*, to adjust the minimum and maximum payroll limitations for executive officers, partners, individual employers, and members of a limited liability company to reflect wage inflation since the minimum and maximum payroll limitations were last amended in 2008.

5. Amend Part 3, *Standard Classification System*, Section VII, *Standard Classifications*, Rule 1, *Classification Section*, paragraph a, *Industry Groups*, to reflect the proposed establishment of *Metal Working Classifications* as an industry group and to renumber the subsequent listing in the Rule.
6. Establish a cross-reference to indicate that Classification 3066(3), *Aluminum Ware Mfg.*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
7. Amend Classification 9181, *Athletic Teams or Parks – all players on the salary list of employer, whether regularly played or not*, to increase the annual payroll limitation for players from \$92,300 to \$94,900 per year per person to reflect wage inflation since the threshold was last amended in 2008.
8. Amend Classifications 5185/5186, *Automatic Sprinkler Installation – within buildings*, to increase the hourly wage threshold from \$26.00 per hour to \$27.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
9. Establish a cross-reference to indicate that Classification 3620(1), *Boilermaking – plate steel*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
10. Eliminate Classification 3076(5), *Cabinet or Enclosure Mfg. – metal*, as its constituents are more accurately described by other existing standard classifications.
11. Amend Classification 2111, *Canneries – N.O.C.*, to add a suffix to reflect the establishment of alternate wordings proposed elsewhere in this filing.
12. Amend Classifications 5645(1)/5697(1), *Carpentry – construction or remodeling of detached private residences for occupancy by one or two families*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
13. Amend Classifications 5645(2)/5697(2), *Carpentry – construction or remodeling of dwellings not exceeding three stories in height*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
14. Amend Classifications 5403/5432, *Carpentry – including the installation of interior trim, builders finish, doors and cabinet work in connection therewith*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.

15. Amend Classifications 5201(1)/5205(1), *Concrete or Cement Work – pouring or finishing of concrete sidewalks, driveways, patios, curbs or gutters*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
16. Amend Classifications 5201(2)/5205(2), *Concrete or Cement Work – pouring or finishing of concrete floor slabs, poured in place and on the ground for other than concrete buildings or structural steel buildings of multi-story construction*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
17. Establish a cross-reference to indicate that Classification 3066(4), *Coppersmithing – shop*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
18. Amend Classifications 5190/5140, *Electrical Wiring – within buildings*, to increase the hourly wage threshold from \$27.00 per hour to \$28.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
19. Amend Classifications 6218(1)/6220(1), *Excavation – N.O.C.*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2004.
20. Eliminate Classification 2623(2), *Fur Mfg. – preparing skins*, due to inadequate statistical credibility.
21. Amend the footnote to Classification 3076(1), *Furniture Mfg. – metal*, to clarify the scope of this classification.
22. Amend Classifications 6315(2)/6316(2), *Gas Mains or Connections Construction – including tunneling at street crossings*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
23. Amend the footnote to Classification 3401(2), *Gate or Corral Mfg. – tube or pipe stock*, to clarify its intended application.
24. Amend Classifications 5467/5470, *Glaziers – away from shop*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
25. Amend Classifications 6218(2)/6220(2), *Grading Land – N.O.C.*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2004.

26. Eliminate Classification 2623(3), *Hide Processing or Preserving*, due to inadequate statistical credibility.
27. Establish Classification 2586(3), *Hide or Fur Cleaning, Processing or Preserving*, as an alternate wording to Classification 2586(1), *Dry Cleaning or Dyeing – N.O.C.*
28. Establish a cross-reference to indicate that Classification 3030, *Iron or Steel Works – structural*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
29. Establish a cross-reference to indicate that Classification 3040, *Iron Works – non-structural*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
30. Amend Classifications 6218(3)/6220(3), *Land Leveling – grading farm lands*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2004.
31. Amend Classifications 5027/5028, *Masonry – employees whose regular hourly wage does not equal or exceed \$23.00 per hour*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
32. Establish a cross-reference to indicate that Classification 3400, *Metal Goods Mfg. – N.O.C.*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
33. Establish an industry group for *Metal Working Classifications*.
34. Amend Classification 9610, *Motion Pictures – production*, to increase the annual payroll limitation for actors, musicians, producers and the motion picture director from \$92,300 to \$94,900 per person to reflect wage inflation since the threshold was last amended in 2008.
35. Amend industry group *Municipal, State or Other Public Agencies*, Classification 7429, *Airport Operators – all employees*, to add the suffix to a classification referenced in the footnote.
36. Eliminate Classification 2106(1), *Olive Handling – sorting, curing, packing and canning – including olive oil manufacturing*, due to inadequate statistical credibility and establish Classification 2111(2), *Olive Handling – sorting, curing, packing and canning*, to be an alternate wording to Classification 2111, *Canneries – N.O.C.*
37. Amend Classification 0016, *Orchards – citrus and deciduous fruits*, to indicate that Classification 0016 applies to acreage devoted to olives.

38. Amend Classifications 5474(1)/5482(1), *Painting, Decorating or Paper Hanging – including shop operations*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
39. Amend Classifications 5474(3)/5482(3), *Painting – oil or gasoline storage tanks*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
40. Eliminate Classification 2106(2), *Pickle Mfg.*, due to inadequate statistical credibility and establish Classification 2111(3), *Pickle Mfg.*, as an alternate wording to Classification 2111, *Canneries – N.O.C.*
41. Establish a cross-reference to indicate that Classification 3022, *Pipe or Tube Mfg. – other than iron or steel*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
42. Amend Classifications 5484/5485, *Plastering or Stucco Work – employees whose regular hourly wage does not equal or exceed \$24.00 per hour*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
43. Establish a cross-reference to indicate that Classification 3620(2), *Plate Steel Products Fabrication – N.O.C.*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
44. Amend industry group *Printing, Publishing and Duplicating*, Classification 4361(2), *Photofinishing – all employees*, to correct a classification referenced in the footnote.
45. Amend Classification 7610, *Radio, Television or Commercial Broadcasting Stations – all employees*, to increase the annual payroll limitation for players from \$92,300 to \$94,900 per person to reflect wage inflation since the threshold was last amended in 2008.
46. Amend Classifications 5552/5553, *Roofing – all kinds*, to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
47. Amend Classifications 6307/6308, *Sewer Construction – all operations*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
48. Establish a cross-reference to indicate that Classification 3066(1), *Sheet Metal Products Mfg. – N.O.C.*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.

49. Amend Classifications 5538/5542, *Sheet Metal Work – erection, installation or repair*, to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
50. Amend industry group *Sign Industry*, Classifications 9507(2), *Sign Mfg. – quick sign shops*, and Classification 9507(1), *Sign Painting or Lettering – shop and outside*, for clarity.
51. Eliminate Southern California Rapid Transit District Metro Rail Redline Project, Classification 6254, *Subway Construction – all operations*, due to inadequate statistical credibility.
52. Amend Classifications 5630/5631, *Steel Framing – light gauge – residential*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
53. Amend Classifications 5632/5633, *Steel Framing – light gauge – commercial*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
54. Establish a cross-reference to indicate that Classification 3018, *Steel Making*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
55. Eliminate Classification 2623(1), *Tanning*, due to inadequate statistical credibility.
56. Amend Classification 7365, *Taxicab Operations – all employees*, to increase the minimum annual payroll per taxicab from \$25,900 per year to \$26,500 to reflect wage inflation since the threshold was last amended in 2008.
57. Amend Classification 9156, *Theaters – dance, opera and theater companies*, to increase the annual payroll limitation for performers and directors of performers from \$92,300 to \$94,900 per person to reflect wage inflation since the threshold was last amended in 2008.
58. Amend Classification 9151, *Theaters – music ensembles*, to increase the annual payroll limitation for performers and directors of performers from \$92,300 to \$94,900 per person to reflect wage inflation since the threshold was last amended in 2008.
59. Amend the footnote to Classification 3401(1), *Tube or Pipe Products Mfg. – N.O.C.*, to clarify its intended application.
60. Establish a cross-reference to indicate that Classification 3401(1), *Tube or Pipe Products Mfg. – N.O.C.*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.

61. Amend Classifications 5446/5447, *Wallboard Application – within buildings*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
62. Amend Classifications 6315(1)/6316(1), *Water Mains or Connections Construction – including tunneling at street crossings*, to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
63. Amend Classifications 5474(2)/5482(2), *Waterproofing – other than roofing or subaqueous work when performed as a separate operation not a part of or incidental to any other operation*, to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation since the threshold was last amended in 2008.
64. Establish a cross-reference to indicate that Classification 3257, *Wire Goods Mfg. – N.O.C.*, is listed under the *Metal Working Classifications* Industry Group as proposed elsewhere in this filing.
65. Amend Section VIII, *Abbreviated Classifications – Numeric Listing*, for consistency and to reflect the amendments proposed elsewhere in this filing.
66. Amend Part 4, *Unit Statistical Report Filing Requirements*, Section I, *General Instructions*, Rule 8, *Excess Policies*, to eliminate the unit statistical report filing requirements for excess insurance policies since these requirements are obsolete.
67. Amend Part 4, *Unit Statistical Report Filing Requirements*, Section II, *Definitions*, Rule 11, *Final Premium(s)*, to reflect the name of the Terrorism Risk Insurance Program Reauthorization Act of 2007 and to address the reporting requirements for the new provisions in Insurance Code Section 11760.1.
68. Amend Part 4, *Unit Statistical Report Filing Requirements*, Section III, *Policy Information (Header)*, Rule 23, *Policy Type ID Codes (Policy Type ID)*, to eliminate the unit statistical report filing requirements for excess insurance policies since these requirements are obsolete.
69. Amend Part 4, *Unit Statistical Report Filing Requirements*, Section III, *Policy Information (Header)*, Rules 24 through 27, to facilitate the collection of deductible indicator information and to clarify its intended application.
70. Amend Part 4, *Unit Statistical Report Filing Requirements*, Section V, *Loss Information*, Subsection B, *Loss Data Elements*, Rule 13, *Social Security Number (Social Security Number)*, to eliminate the Social Security Number reporting requirement due to privacy concerns. This change is proposed to be effective with respect to claims required to be valued on or after January 1, 2009.

Appendices

The WCIRB's recommendations are as follows:

1. Amend Appendix II, *Construction and Erection Classifications*, for consistency and to reflect the proposed amendments.
2. Amend Appendix V, *Required Loss Fields for Particular Injury Types and Types of Claims*, to eliminate the Social Security Number reporting requirement due to privacy concerns. This change is proposed to be effective with respect to claims required to be valued on or after January 1, 2009.

AMEND THE MISCELLANEOUS REGULATIONS FOR THE RECORDING AND REPORTING OF DATA

The WCIRB recommends the following amendment to the Miscellaneous Regulations for the Recording and Reporting of Data (Miscellaneous Regulations) be approved effective January 1, 2009 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2009.

The WCIRB's recommendation is as follows:

1. Amend Part 1, *General Provisions*, Section I, *Introduction*, Rule 2, *Effective Date*, to show that the effective date of the Miscellaneous Regulations is 12:01 A.M., January 1, 2009 to be consistent with the effective date of the California Workers' Compensation Uniform Statistical Reporting Plan—1995 for ease of reference.

AMEND THE CALIFORNIA WORKERS' COMPENSATION EXPERIENCE RATING PLAN—1995

The WCIRB recommends that the following amendments to the California Workers' Compensation Experience Rating Plan—1995 (Experience Rating Plan) be approved effective January 1, 2009 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2009.

The WCIRB's recommendations are as follows:

1. Amend Section I, *General Provisions*, Rule 2, *Effective Date*, to show that the effective date of the amended Experience Rating Plan is 12:01 A.M., January 1, 2009.
2. Amend Section II, *Definitions*, Rule 2, *Base Premium*, to reflect the name of the Terrorism Risk Insurance Program Reauthorization Act of 2007.

3. Amend Section III, *Eligibility and Experience Period*, Rule 1, *Eligibility Requirements for California Workers' Compensation Insurance*, to adjust the eligibility requirement from \$14,300 to \$17,300 to reflect wage inflation and to reflect the changes in the pure premium rates proposed in this filing.
4. Amend Section V, *Application of Experience Modification*, Rule 6, *Experience Modification Corrections – Effective Dates*, to correct the citation to the Revisions of Losses rule.
5. Amend Section VI, *Tabulation of Experience*, Rule 4, *Losses*, paragraph a, to correct the sequence of referenced paragraphs and rules, and paragraph l to reflect the name of the Terrorism Risk Insurance Program Reauthorization Act of 2007.
6. Amend Section VI, *Tabulation of Experience*, Rule 11, *Terrorism Claims*, to reflect the name of the Terrorism Risk Insurance Program Reauthorization Act of 2007.
7. Amend the expected loss rates and D-ratios shown in Table II, *Expected Loss Rates and Full Coverage D-Ratios*, to reflect the most current data available.

SPECIFIC TECHNOLOGIES OR EQUIPMENT

Adoption of these proposed changes and amendments will not mandate the use of specific technologies or equipment.

IDENTIFICATION OF STUDIES, REPORTS, OR DOCUMENTS

The Commissioner did not consider any studies, reports, or documents in promulgating these proposed changes or amendments other than the information provided by the WCIRB in its filing. However, the Commissioner may consider studies, reports, or documents submitted by the WCIRB, requested of the WCIRB by the Commissioner or his staff, or submitted by any interested person.

REASONABLE ALTERNATIVES

The Commissioner has determined that no reasonable alternatives exist to carry out the proposed changes and amendments and that there are no reasonable alternatives that would lessen the impact on small business.

ASSESSMENT OF SIGNIFICANT ADVERSE ECONOMIC IMPACT ON BUSINESS

The Commissioner has determined that it is unknown whether there will be a significant adverse economic impact on business as a result of the proposed changes to the pure premium rates. Adjustments to the proposed pure premium rates are advisory only, and it is left to workers' compensation insurers to determine what adjustments to make to their own pure premium rates. The Commissioner has determined that changes and amendments to the regulations contained in the California Workers' Compensation Uniform Statistical Reporting Plan—1995, the Miscellaneous Regulations for the Recording and Reporting of Data, and the California Workers' Compensation Experience Rating Plan—1995 will not have a significant adverse economic impact on business based upon the information provided by the WCIRB in its filing.

PRE-NOTICE PUBLIC DISCUSSIONS

The Commissioner has not conducted Pre-Notice Public Discussions; however, the WCIRB has conducted public meetings regarding these proposed changes and amendments.